



0000155736

Brian Hageman
 18832 M. 95th Street
 Scottsdale, Arizona 85255
 Respondent In Pro Per

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, Chairman
 GARY PIERCE
 BRENDA BURNS
 BOB BURNS
 SUSAN BITTER-SMITH

Arizona Corporation Commission

DOCKETED

SEP 4 2014

DOCKETED BY

In the matter of:

BRIAN C. HAGEMAN

DELUGE, INC.

HYDROTHERM POWER CORPORATION

Respondents.

DOCKET NO. S-20896A-13-0378

CLOSING BRIEF

In the matter of DOCKET NO. S-20896A-13-0378 the Respondents
 submit this CLOSING BRIEF in order to dismiss all allegations brought
 forward by the Securities Division.

Contents of this document:

- A. Respondents
- B. Facts
- C. Alleged violations
- D. Requested Relief
- E. Hearing comments

RECEIVED
 2014 SEP -4 A 11:23
 ARIZONA CORPORATION COMMISSION
 DOCKET CONTROL

1 A. Respondents

2
3 BRIAN C. HAGEMAN ("HAGEMAN") is a private citizen living in Arizona
4 and acts as CEO and Chairman of DELUGE, INC. and HYDROTHERM POWER
5 CORPORATION, both corporations are organized under the laws of the
6 state of Delaware and are behind on franchise fees but not dissolved.
7 HAGEMAN and the corporations are not required to be registered as a
8 securities salesman or dealers.

9
10 DELUGE, INC. ("DELUGE") is a Delaware Corporation and organized under
11 Delaware rules and manages part of the operations of the technology.
12 DELUGE is behind on franchise fees and is working with the state of
13 Delaware to bring the fees current. The balance of about \$2000 is due
14 and will be paid. Once paid, the company will have its "good standing"
15 designation. This designation gives the company rights as if the
16 company had at all times remained in full force and effect according
17 to Delaware state law Title 8 Chapter 1 Subchapter XII paragraph
18 312.e. The company intends to complete this requirement. The company
19 is not a stock broker/dealer and is not required to register as a
20 dealer. The majority owner of DELUGE is HYDROTHERM.

21
22 HYDROTHERM POWER CORPORATION ("HYDROTHERM") is a Delaware Corporation
23 and organized under Delaware rules and acts as a patent holding
24 company. HYDROTHERM is behind on franchise fees and is working with
25 the state of Delaware to bring the fees current. The balance of about
26 \$6000 is due and will be paid. Once paid, the company will have its
27 "good standing" designation. This designation gives the company rights
28 as if the company had at all times remained in full force and effect

1 according to Delaware state law Title 8 Chapter 1 Subchapter XII
2 paragraph 312.e. The company intends to complete this requirement. The
3 company is not a stock broker/dealer and is not required to register
4 as a dealer. The majority owner of HYDROTHERM is HAGEMAN.

5
6 B. FACTS
7

8 The sales of common stock in DELUGE and HYDROTHERM have been conducted
9 according to rules and policies that have been audited by three
10 auditing firms. The sales of common stock are typical in private
11 companies and allowed by federal regulations. Documents were prepared
12 by professional securities attorneys in accordance with existing rules
13 for sales of common stock.

14
15 It is not uncommon that Delaware companies go through periods of
16 getting behind on fees and filings. These common problems occur during
17 periods of economic recession causing companies to lose budgets
18 necessary for normal business operations. These economic cycles are
19 why the state of Delaware provides the means necessary to correct
20 lapses and allow a return to good standing. DELUGE and HYDROTHERM
21 intend to become current on fees and filings with Delaware giving the
22 companies rights as if the companies had at all times remained in full
23 force and effect according to Delaware state law Title 8 Chapter 1
24 Subchapter XII paragraph 312.e.

25
26 DELUGE along with many thousands of companies have websites on the
27 internet. This commonplace activity gives exposure to small companies
28 and provides a platform for inquiries from potential customers of

1 technology. Occasionally an inquiry will ask about investment
2 opportunities which requires a screening process. Most inquiries are
3 from unqualified individuals that are dismissed when the federal
4 regulations are explained. Based on "state of the art" website
5 production, an investor page was added to provide a screening method
6 for curious individuals. The investor page of the DELUGE website was
7 removed when a voluntary agreement was provided to the Securities
8 Division.

9
10 Any officer of a company is allowed to have conversations with
11 individuals about company business including meetings, telephone calls
12 and email correspondence with potential investors. Occasionally
13 inventor based companies like DELUGE are approached by individuals
14 trying to cheat the company. DELUGE has fallen victim to a few
15 "consultants" that promised business development activities and ended
16 up in litigation by these unprincipled individuals. These unfortunate
17 episodes caused a more guarded conversation policy with new business
18 efforts.

19
20 DELUGE continued to engage in conversations with potential business
21 and investment potentials with the intent that Delaware fees and
22 filings will be accomplished with Delaware giving the companies rights
23 as if the companies had at all times remained in full force and effect
24 according to Delaware state law Title 8 Chapter 1 Subchapter XII
25 paragraph 312.e.

26
27 Conversations continued with accredited individuals along with scam
28 artists and undercover operatives who became easier to identify and

1 ignore or dismiss. The undercover operatives from the Securities
2 Division were quite amateurish in their requests that sent up "red
3 flags" in the screening process for potential investors. When the lead
4 undercover operative insisted that DELUGE provide bank account numbers
5 "or the deal is dead" it became apparent that we were dealing with a
6 scam artist or other ruthless individual. At all times DELUGE had the
7 right to continue due diligence and have conversations with any
8 individuals. DELUGE's intentions during any of these conversations
9 were based on legitimate business practices approved by securities
10 attorneys and auditors.

11
12 Any litigation involving the companies are in progress awaiting final
13 decisions as council is available. The general policy of the companies
14 is not to comment to anyone on pending litigation. Any individual can
15 carry out their own due diligence and find public records that show
16 the status of any litigation.

17
18 Shareholder loans provided to HAGEMAN from the companies are accounted
19 by normal business practice, acceptable to auditors and attorneys. All
20 loan amounts have been documented and made available on financial
21 reports that were provided to the Securities Division. HAGEMAN is the
22 majority shareholder in HYDROTHERM and is owed over \$4 million.

23
24 Common stock shareholders in the companies are all aware that their
25 investment is a high risk investment and may never see a return on
26 their investment. As testified by witness and shareholder John Rhodes,
27 he stated in the Subscription Agreement signed by the witness,
28 INVESTORS SHOULD NOT INVEST ANY FUNDS IN THIS OFFERING UNLESS THEY CAN

1 **AFFORD TO LOSE THEIR ENTIRE INVESTMENT.** Any shareholder, including
2 HYDROTHERM, has the right to sell their common stock shares as in the
3 instance of witness and shareholder Nita Killebrew who testified she
4 sold a portion of her common stock and actually made a profit through
5 the sale.

6
7 C. Alleged violations

8
9 A.R.S. 44-1841

10
11 All sales of common stock were conducted under the advice and
12 guidelines by professional securities attorneys, auditors and
13 accounting experts. No violation of rule occurred.

14
15 A.R.S. 44-1842

16
17 Officers of a corporation are allowed to use common stock for business
18 goals. Common stock can be sold, used in mergers and acquisitions, or
19 used to pay for services. It is not required for officers of a
20 corporation to become stock broker/dealers in order to perform these
21 basic business activities. No violation of the rule occurred.

22
23 A.R.S. 44-1991

24
25 No fraud was committed during the course of business at DELUGE or
26 HYDROTHERM. Risk details and financial statements were provided to
27 common stock shareholders and individuals in business development. The
28 risk statements clearly state that INVESTORS SHOULD NOT INVEST ANY

1 FUNDS IN THIS OFFERING UNLESS THEY CAN **AFFORD TO LOSE THEIR ENTIRE**
2 **INVESTMENT**. The loans to HAGEMAN are listed in the financial
3 statements provided to common stock shareholders. Revival of DELUGE
4 and HYDROTHERM are pending with the state of Delaware and will be
5 giving the companies rights as if the companies had at all times
6 remained in full force and effect according to Delaware state law
7 Title 8 Chapter 1 Subchapter XII paragraph 312.e. No violations of the
8 rule occurred.

9
10 A.R.S. 44-1999
11

12 All sales of common stock were conducted under the advice and
13 guidelines by professional securities attorneys, auditors and
14 accounting experts. No violation of rule occurred.
15

16 D. Requested Relief
17

- 18 1. The requested relief suggested by the Securities Division would
19 be harmful to the common stock shareholders. The suggested relief
20 by the Securities Division would preclude any chance of profit
21 from investment by the common stock shareholders. The Respondents
22 have already agreed to cease and desist from common stock sales
23 until companies are compliant with all rules.
- 24 2. The Respondents agree to take affirmative action to correct any
25 conditions that may be deficient with oversight by the Securities
26 Division.
- 27 3. Respondents ask that no penalties be applied in order that any
28 capital available is used for continuation of the business, sales

1 of technology, and building profits to return funds to common
2 stock shareholders in a normal course of business. The
3 Respondents will agree to some type of probationary period if
4 necessary, as long as business can be conducted and not
5 obstructed by the Securities Division.

6
7 E. Hearing comments
8

9 **Nita Killebrew**
10

11 Mrs. Killebrew is a good example of a common stock shareholder who
12 decided to sell their common stock shares to a third party. Mrs.
13 Killebrew testified that she sold 40% of her common stock in DELUGE
14 for which she paid a total of \$12,500 to DELUGE. Mrs. Killebrew's
15 holdings in DELUGE totaled 25,000 shares and then sold 10,000 shares
16 as she testified for \$70,000. This represents over a 500% return on
17 her investment in DELUGE. Mrs. Killebrew still holds 50,000 common
18 stock shares in HYDROTHERM.

19
20 **William Santee**
21

22 Mr. Santee works as an undercover investigator on contract with the
23 Securities Division. Mr. Santee worked under the supervision of one
24 of the junior investigators in the Security Division. The
25 conversations with Mr. Santee were required by DELUGE to screen the
26 person to find if the accreditation standards would allow further
27 conversation. Doubts were immediately raised concerning the
28 sophistication of Mr. Santee. The conversations would not end with a

1 stock sale because Mr. Santee is not accredited or sophisticated. Mr.
2 Santee's testimony should be dismissed as not relevant.

3
4 **Annalisa Rice**

5
6 Annalisa Rice works for the Securities Division. The Respondents
7 characterize her level of expertise in the Securities Division as a
8 junior level employee based on the few years she has worked for the
9 Securities Division. Miss Rice's undercover work dealing with DELUGE
10 had many warning flags and danger signals that Miss Rice was a scam
11 artist. Her final communication that DELUGE had to supply a bank
12 account number convinced DELUGE that Miss Rice was a fraud and may
13 need to be turned over to authorities. At all times DELUGE proceeded
14 with the conversation under the guidelines and policies directed by
15 professional securities attorneys, auditors and accountants. Miss
16 Rice's testimony should be disregarded. The "intent" being sought by
17 Miss Rice was merely an email conversation that generated no
18 accusations.

19
20 **John Rhodes**

21
22 John Rhodes is a common stock holder who has decided to keep his
23 holding in the companies and decided not sell common stock as allowed
24 and as testified by shareholder Nita Killebrew. Mr. Rhodes testified
25 and read the excerpt from his signed subscription agreement that
26 INVESTORS SHOULD NOT INVEST ANY FUNDS IN THIS OFFERING UNLESS THEY CAN
27 **AFFORD TO LOSE THEIR ENTIRE INVESTMENT.** The long term risk of the

1 investment was clear and was provided to the Respondents by
2 professional securities attorneys, auditors and accountants.

3
4 **Sean Callahan**

5
6 Sean Callahan is a contractor working for the Securities Division. Mr.
7 Callahan designated himself as an expert witness for the Securities
8 Division. Mr. Callahan has a good background in basic accounting and
9 arithmetic but does not have experience in the complicated principals
10 involved in patent valuation. Mr. Callahan testified he was not an
11 expert when it come to patent valuation accounting. The Respondents
12 companies are based on patent valuation; therefore M. Callahan's
13 testimony doesn't meet the threshold of an expert. Furthermore, Mr.
14 Callahan's review of the companies didn't include an analysis of
15 balance sheet or profit/loss financial statements. Mr. Callahan
16 testified that he didn't request copies of the financial statements.
17 The Respondents find it impossible for an "expert witness" to evaluate
18 a company properly without a full examination of the company financial
19 statements. Mr. Callahan's testimony should be dismissed as not
20 relevant.

21
22 Dated this 5th day of September, 2014

23 
24

25 Brian C. Hageman
26 18832 N. 95TH Street
27 Scottsdale, AZ 85255
28 Respondent In Pro Per